

**Board of Governors of the Federal Reserve System**

# **SEMIANNUAL REPORT TO CONGRESS**



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**OFFICE OF INSPECTOR GENERAL**

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April 1, 1997 – September 30, 1997



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

October 23, 1997

The Honorable Alan Greenspan  
Chairman  
Board of Governors of the  
Federal Reserve System  
Washington, D.C. 20551

Dear Chairman Greenspan:

The enclosed semiannual report to Congress summarizes activities of the Board's Office of Inspector General for the six-month period ended September 30, 1997. This report summarizes our published audit work, audit work in process, investigative activities, and legislative and regulatory review activities during the period.

The report should be forwarded to Congress with any comments you may have, along with your separate management report, by the end of November 1997.

Sincerely,

A handwritten signature in black ink, appearing to read "Brent L. Bowen", is positioned above the printed name of the Inspector General.

Brent L. Bowen  
Inspector General

Enclosure

**Board of Governors of the Federal Reserve System**

# **SEMIANNUAL REPORT TO CONGRESS**



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**OFFICE OF INSPECTOR GENERAL**

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April 1, 1997 – September 30, 1997

# Table of Contents

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	Page
Introduction and Summary .....	1
Audits .....	3
Economic and Monetary Policy .....	3
Supervision and Regulation of Financial Institutions .....	4
Oversight of Federal Reserve Bank Activities .....	5
Federal Reserve Board Administrative Operations .....	7
Investigations .....	11
Hotline Results .....	12
Investigative Results .....	12
Legislative and Regulatory Review .....	13
Activity during the Reporting Period .....	13
Appendixes .....	15
Appendix 1—The Federal Reserve System .....	17
Appendix 2—Office of Inspector General .....	19
Appendix 3—OIG Audit Reports and Recommendations .....	21
Appendix 4—Audit Reports Issued with Questioned Costs for the Period April 1, 1997, through September 30, 1997 .....	23
Appendix 5—Audit Reports Issued with Recommendations That Funds Be Put to Better Use for the Period April 1, 1997, through September 30, 1997 .....	25
Appendix 6—Summary Statistics on Investigations for the Period April 1, 1997, through September 30, 1997 .....	27
Appendix 7—Cross-References to the Inspector General Act .....	29

# Introduction and Summary

The Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (the Board) reports twice yearly to Congress on audits, investigations, legislative and regulatory reviews, and other activities in accordance with the Inspector General Act of 1978 (IG Act), as amended. This report covers the period April 1, 1997, through September 30, 1997.

Since the OIG was established, we have shared our strategic direction, five-year plans, and annual plans with the Board and the Congress to stimulate interest, encourage communication, and encourage program officials to improve their operations before we initiate audits. That approach is embodied in our mission statement:

***The overall mission of the Office of Inspector General is to assist the Board in achieving economy, efficiency, and effectiveness and in preventing or detecting fraud, waste, and abuse in its operations and activities.***

Each of our semiannual reports presents an overview of planned activities and summarizes activities conducted during the reporting period.

Our *Strategic Plan 1995–1999*<sup>1</sup> specifies three long-range goals:

- ***To focus our resources on issues that pose the greatest risk to and offer the maximum opportunity to add value to the Federal Reserve.***
- ***To improve OIG interaction and coordination within the Federal Reserve System and with others.***
- ***To improve the economy and efficiency of OIG internal operations.***

These goals set the direction for all our activities. The first (with the help of our risk assessment model) helps us determine where to focus, the second helps us emphasize communications to fulfill our leadership and prevention responsibilities, and the third guides us to more efficient operations. Background information on the functions and organization of the Federal Reserve and the OIG are included as appendixes 1 and 2, respectively (pages 17 and 19). Appendixes 3 through 6, specifically required by the IG Act, are referenced in the text. Appendix 7 (page 29) shows the specific reporting requirements prescribed by the IG Act and recommended by the General Accounting Office (GAO).

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<sup>1</sup>We produced our *Strategic Plan 1998-2001* during the period. Its framework will be used for the next semiannual report.

# Audits

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Our audit activities, conducted within the Board's four mission areas, cover issues confronting the Federal Reserve System, evaluate potential risks to the Board, and recommend means by which those risks may be reduced.

In the sections on each mission area that follow, we have listed the issues we have identified for audit attention, the work completed or in process during this reporting period, and work planned for the next reporting period. We have also included the results of our audit follow-ups. In conducting follow-ups, we typically give

economic indicators; establishing reserve requirements, discount rates, and margin requirements; reporting policy actions; and publishing economic analyses and research results. Our work in this mission area focuses on the following issues:

- Do key automation systems that produce economic and statistical data operate effectively, efficiently, and economically, and do they have effective internal controls?
- Is the Board adequately overseeing discount window operations?

## Supervision and Regulation of Financial Institutions

The Federal Reserve is responsible for supervising and regulating state member banks and bank holding companies as well as foreign banks doing business in the United States. Its key activities include keeping abreast of current and prospective developments in the banking structure; performing examinations and inspections of financial institutions; processing applications that involve acquisitions, mergers, and changes in bank control; analyzing and developing proposals to improve banking safety and soundness and consumer credit protection laws; processing consumer complaints; and monitoring community banking affairs. The Board has delegated certain supervisory activities, such as conducting examinations and inspections and processing routine applications, to the Federal Reserve Banks. Our work in this mission area focuses on the following issues:

- Does the Board exercise effective oversight of the supervision and regulation function to ensure that policies are consistently interpreted and implemented throughout the System?
- Does the Board effectively and efficiently fulfill its mission to enforce banking disclosure, fair lending, and consumer protection laws?
- Does the Board effectively and efficiently carry out its bank regulatory functions, and does it comply with the Administrative Procedures Act in

promulgating regulations?

- Are the Board's examination, surveillance, and enforcement programs efficient and effective in ensuring that the institutions it regulates operate in a safe and sound manner?
- Do the Board divisions responsible for administering this mission area effectively and efficiently use and manage their automated resources?

### *Overview of OIG Activities*

During this period we issued a final report on the Division of Banking Supervision and Regulation's distributed processing environment and developed a draft report on the Federal Reserve System's enforcement process, which we will issue in final form once we receive official comments from the division. We also completed a follow-up on the *Report on the Audit of the Board's Consumer Compliance Examination Process* (A9508) and closed three of the fourteen recommendations. We will continue to monitor the remaining outstanding recommendations.

We have completed fieldwork on our audit of the Division of Consumer and Community Affairs' distributed processing environment and started an audit of the Federal Reserve System's process for developing, tracking, and monitoring application commitments. We also initiated a survey of Systemwide initiatives to improve bank supervision. We will report on our progress on these activities in the next semiannual report.

### *Report on the Audit of the Division of Banking Supervision and Regulation's*

## *Distributed Processing Environment (A9610)*

We performed this audit to determine if the Division of Banking Supervision and Regulation (BS&R) has established an effective process for planning, organizing, directing, and controlling the activities related to distributed processing; adequately managed its local area networks and developed an effective problem management system; properly secured its distributed systems and data; and developed appropriate backup and disaster recovery procedures.

Overall, we found that BS&R is adequately managing its distributed processing environment. BS&R's *Strategic Office Automation Plan*, which covers 1995 through 1997, identified major objectives that were consistent with Systemwide initiatives and helped maintain a high level of system performance. BS&R has also taken steps to develop appropriate backup and disaster recovery procedures and to build an effective problem management system for users.

Notwithstanding these accomplishments, we are concerned that organizational issues will impact BS&R's ability to effectively and efficiently meet distributed processing challenges that are and will be facing the division and the Systemwide supervision and regulation function. While security over BS&R's network is generally adequate, controls could be strengthened by implementing additional security features. With BS&R moving forward to a dual network operating system and a new office application suite this year, it will be particularly important to examine security capabilities and controls. We found nine vulnerabilities that indicate controls need to be enhanced in the division's existing network operating system; under a separate

restricted cover we gave these technical findings, along with specific recommendations for corrective action, to the Deputy Director of BS&R for appropriate disposition. The division agreed with our findings and is addressing these vulnerabilities. Finally, we believe opportunities exist to improve communications and strengthen network management and control by formalizing policies and procedures and by ensuring that problems are consistently resolved in a complete and timely manner.

## **Oversight of Federal Reserve Bank Activities**

The twelve Reserve Banks are separate entities within the Federal Reserve System, each operating under the supervision and control of a board of directors but subject to the general supervision of the Board. The Reserve Banks serve depository institutions by maintaining reserve and clearing accounts and by providing payment services that include check collection and processing, electronic funds transfer, and currency and coin processing and distribution. The Reserve Banks also act as the federal government's fiscal agent and as such perform various activities related to payments processing and government securities. The Board exercises its general supervisory responsibilities through a number of activities, including financial examinations, operations reviews, budget reviews, building and information technology oversight programs, accounting and financial reporting standards setting, and annual performance evaluations. Our work in this mission area focuses on the following issues:

- Are the Board's general oversight processes effective and efficient, and



- do adequate controls exist to minimize risk to the Federal Reserve?
- Are the Federal Reserve's pricing and policy formulation processes effective, efficient, well controlled, and in compliance with applicable laws, regulations, policies, and procedures?
  - Does the Board carry out its Reserve Bank operational duties in an effective and efficient manner, and do associated processes comply with applicable laws and regulations?

### *Overview of OIG Activities*

During this period we issued a joint letter with the U.S. Department of Treasury Office of Inspector General detailing our review of certain areas related to United States currency. We also concluded a scoping effort of the Federal Reserve System's cost accounting and revenue reporting systems and issued a management letter containing our observations and some minor suggestions for improvement in lieu of going forward with a detailed audit at this time. In addition, we completed a supplemental follow-up of the *Report on the Audit of the Board's Financial Examination Program (A9107)* and closed the remaining outstanding recommendations.

We have started audits of the Division of Reserve Bank Operations and Payment Systems's distributed processing environment and the Board's compliance with section 107 of the Monetary Control Act. We will report on the progress of these audits in our next semiannual report.

### *Joint Letter on Currency Issues*

In conjunction with the U.S. Department of Treasury Office of Inspector General, we examined the issues related to United States currency to judge the benefits of pursuing additional work in this area. We found that the Board and Bureau of Engraving and Printing are adopting positive changes for the introduction of the \$50 bill based on lessons they learned during the \$100 bill rollout. In response to GAO concerns regarding the Federal Reserve's cash management, accounting, and reporting systems, we noted that reviews conducted by the San Francisco Reserve Bank general auditors, the Board's financial auditors, and Coopers and Lybrand were sufficiently broad in scope and adequately addressed the issues raised by the GAO. Our review of currency production and planning activities identified several planning, layout, inventory, and utilization issues requiring further management attention. Finally, we noted that the Federal Reserve System is conducting an infrastructure study to evaluate the long-run efficiency and cost effectiveness of cash operations and is analyzing the feasibility of outsourcing coin distribution.

Although our efforts did not identify any currency issues that would benefit from a joint audit at this time, we believe the concept has merit and plan to explore additional areas where the Offices of Inspector General could work together to provide increased benefit to both agencies. We plan to monitor the currency activities of the Federal Reserve System, which may result in future audits.

### **Federal Reserve Board Administrative Operations**

This mission area encompasses the Board's operational infrastructure. Our work in this mission area focuses on the following issues:

- Is the Board's financial information presented in accordance with established or stated criteria, and does it provide a consistent, comparable, and reliable basis for decision making?
- Is the structure of internal controls over financial reporting and asset safeguarding suitably designed and implemented to achieve control objectives?
- Do the Board's administrative services meet customers' needs in an efficient manner and with appropriate attention to management controls?
- Is the Board adequately prepared for events that could disrupt business operations and are physical, information and automation security adequate?
- Do the Board's various computing environments contain adequate safeguards to ensure the integrity of the Board's business operations?

#### *Overview of OIG Activities*

During this reporting period, we issued a report on a business process review of the Board's travel administration process and began an audit of the Board's contingency planning efforts. We also issued two advisory letters regarding the implementation of the PeopleSoft payroll and benefits system and the Board's fixed assets management process (the report and advisory letters are summarized below). In addition, we

performed follow-ups of the *Report on the Audit of the Board's Procurement and Contract Management Process: Credit Card Purchases (A9507-B)* and the *Report on the Audit of the Division of Information Resources Management's Operating System (MVS) and Access Control Software (CA-ACF2)(A9606)* and closed all of the recommendations in each. We also assisted Price Waterhouse in their annual audit of the financial statements of the Federal Reserve Employee Benefits System.

#### *Report on the Business Process Review of Travel Administration (A9702)*

We performed this review to assist the Board, the Office of the Controller (OC), and the Administrative Systems Automation Project (ASAP) team in redesigning the travel administration process before it is automated in 1998. Our overall objective was to evaluate the efficiency and effectiveness of the existing travel administration function and propose specific actions to foster the design and implementation of an automated process. To accomplish this objective, we studied the existing process and developed baseline performance measures, reviewed external reports on travel reengineering efforts, conducted a "customer satisfaction" survey of 200 recent Board travelers, visited other organizations to observe best practices, and observed demonstrations of commercial travel management software.

Our report proposes nine action items to help the Board reengineer the travel administration process. We developed the action items based on initiatives planned by management, our analysis of Board travel policies and procedures, and comparisons with travel management systems at other public and private organizations. The first

five action items address changes to current Board policy that include the following: allowing division directors to authorize their own travel, outsourcing the transportation reservations process, accommodating traveler use of discount airfares when advantageous, implementing a gainsharing program that encourages travelers to accumulate and redeem frequent-flyer benefits, and extending the government travel card program Boardwide. The remaining four action items focus on automation requirements and process changes to streamline and simplify the travel authorization process, travel expense reconciliation, billing for air and rail tickets from the travel agency contractor, and invoicing and collecting funds due the Board. The automation features proposed in this report are consistent with the strategic direction set by the ASAP team. Overall, we believe implementation of these action items could result in cost savings or funds for better use of about \$267,000 annually.

We provided a draft of this report to the Staff Director for Management and met

with him and management from the Office of the Controller and the Division of Support Services to discuss our proposed actions. We then incorporated their responses to the action items in a final draft report and gave them an opportunity to review it to ensure that their comments were accurately presented. Their responses indicate general agreement with our proposed actions. We plan to follow up on this report as part of our future audit activities.

*Advisory Letter on the PeopleSoft Payroll and Benefits System Implementation (P9620)*

As part of an ongoing effort to monitor the implementation of the PeopleSoft system, we issued an advisory letter stating that we could not attest to the integrity and controls of the system due to the lack of tests of the year-end closing procedures by the implementation team. We also noted the implementation had been split into three phases and that only phase one was to be implemented now. We expressed concern that this might lead to delays in the implementation of subsequent ASAP projects. We also concurred with the implementation team's decision to request additional funds to extend the contracts of PeopleSoft programming contractors. We observed that the cut-over to the new system appeared to be successful and the general ledger entries and interfaces appear to be working satisfactorily. We will continue to monitor the tests of year-end closing procedures and will follow up on the system security and program change controls.

*Advisory Letter on the Board's Fixed Assets Management Process (A9705)*

As a result of an scoping effort we performed of the Board's fixed assets management process, we issued an advisory

letter recommending that the Board consider a distributed processing procurement strategy that is successfully being used by the private sector. This strategy involves purchasing complete distributed processing “services,” rather than purchasing hardware and software on

an ad hoc basis and using internal staff to provide training, software maintenance, and technical support. We believe the adoption of this strategy could save the Board money, provide a higher degree of budget control and predictability, and improve the quality of end-user automation services. We suggested that the Board conduct an in-depth cost analysis that includes both hard and soft costs to determine if this strategy is feasible. As a result of our effort, the Board plans to perform a study of this issue.

# Investigations

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Our investigators continued to address allegations of wrongdoing related to the Board's programs and operations as well as violations of the Board's standards of conduct.

The investigative function covers the full range of investigative requirements from both reactive and proactive directions. Specifically, our approach includes

- reaction to possible wrongdoing identified by others through the OIG hotline and otherwise;
- reaction to possible wrongdoing through referrals from auditors; other Board program functions; Congress; and other federal, state, and local audit or law enforcement agencies; and
- attention to prevention and detection activities that both foster an environment inimical to wrongdoing and encourage close coordination with audits on risk and vulnerability surveys.

Our hotline operation is available to those who want to report wrongdoing in the Board's programs and operations (including delegated functions). The local and toll-free hotline numbers and the OIG hotline address are published in the Board's telephone directory, in an interagency hotline network publication sponsored by the President's Council on Integrity and Efficiency (PCIE), in the *Congressional Record*, in the local telephone directory, and in the telephone

directories of each of the Federal Reserve Banks and Branches and their respective local telephone directories. The hotline numbers are also published in selected documents, correspondence, and reports produced by the Board and the OIG and are often publicized by a television financial network.

The OIG reacts to referrals from within the Board and outside sources and makes referrals to other law enforcement organizations as appropriate. The OIG's prevention and detection strategy is designed to identify causes of fraud and abuse, to provide a mechanism for the early detection of fraud and abuse to minimize any potential damage and/or loss, and to help the Board resolve such problems and prevent their recurrence.

Through hotline complaints, referrals, and proactive efforts, the OIG learned of an increasing number of "high-yield" investment schemes in which promoters falsely state that the Federal Reserve is involved in trading programs or offerings that can benefit individual investors. The offerings often claim to involve "prime bank" notes, medium-term notes, Treasury securities, "fresh-cut paper," and other instruments. In a number of these investment schemes, promoters fraudulently claim that the Federal Reserve licenses or registers representatives or brokers in connection with these investment offerings. These schemes are proliferating domestically and internationally, and several have appeared on the Internet.

In response, our office conducted extensive liaison activities with state and federal law enforcement and regulatory agencies. We also referred information, documents, and witnesses to agencies that monitor or prosecute promoters of these schemes. We opened a case in order to monitor these schemes. In addition, we presented a seminar on fictitious instrument frauds, their investigation and prosecution, relevant statutes and case law, and investment fraud schemes on the Internet to employees of the Board and Federal Reserve Banks and to investigators and prosecutors from other agencies.

### **Hotline Results**

During this reporting period, the investigative unit resolved 249 telephone complaints to the OIG nationwide toll-free hotline and numerous written complaints. Most callers were consumers with complaints or questions about policies of private financial institutions in such areas as funds availability, bond checks, loan collateral, loan overcharges, stock transactions, and bank fees. Other callers

contacted us seeking advice about various programs and operations of the Board, Federal Reserve Banks, and other financial regulatory agencies. The investigative staff directed these inquiries to the appropriate Board office, Federal Reserve Bank, or federal or state agency responsible.

### **Investigative Results**

During this reporting period, we opened three cases. The first was based on a referral from the Board; the second, involving investment schemes using the name of the Federal Reserve, was based on proactive efforts, as well as liaison with personnel from the Board, Reserve Banks, and other agencies and individuals; and the third was based on hotline complaints.

We continued work on nine cases from previous periods and by the end of this period had closed three cases, leaving a total of nine cases active (see appendix 6, page 27). None of the complaints or cases handled during this period required us to make any criminal or administrative referrals.

# Legislative and Regulatory Review

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We review existing and proposed legislative and regulatory items both as part of our routine activities and on an ad hoc basis. We usually review existing laws, regulations, and policies and procedures that affect the Board as part of scheduled audits and investigations of program and operations areas; as the need arises, we also evaluate those not scheduled for review. When evaluating new or proposed laws, we identify appropriate legislation for review using the list of pending federal legislation prepared by the Board's law library as well as information shared within the Inspector General community, and we coordinate with other Board programs that also review new and proposed legislation. We then independently analyze the effect that the new or proposed legislation may have on the efficiency and effectiveness of Board programs and operations. When reviewing new or proposed regulations or policies, we monitor program contributions to the proposals to ensure that programs are fulfilling their legally mandated responsibilities. We then conduct our own analysis of proposed regulations to assess their possible administrative effects and the risk of fraud, waste, and abuse under them.

## **Activity During the Reporting Period**

In this reporting period, we assisted with audits and investigations by commenting on statutory and regulatory compliance issues during the planning phases and addressing

legal issues during the fieldwork and report preparation phases. We reviewed in detail all bills introduced in the current Congress that would affect the Federal Reserve System or the OIG. We reviewed several Board regulations and policies in both their proposed and final forms. Legislative, statutory, and regulatory reviews that concentrate on economy and efficiency concerns are continuing in connection with specific audits and inquiries. We also reviewed all bills having a direct and predictable effect upon the Office of Inspector General.

These reviews covered portions of the Federal Reserve Act, the enforcement provisions of the Federal Deposit Insurance Act, the Bank Holding Company Act, federal travel regulations, various government contracting acts, and the federal information resources acts and the regulations that implement those acts. The reviews also cover pending legislation that, by amending those acts, would affect the burdens that the acts place on regulated entities and would alter the effects that they have on the public. With regard to legislation that, if enacted, would have a direct and predictable effect upon the Office of the Inspector General, we presented our comments through the President's Council on Integrity and Efficiency and its companion, the Executive Council on Integrity and Efficiency.

# Appendixes

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## Appendix 1

# The Federal Reserve System

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Congress established the Federal Reserve System (the System) as the nation's central bank in 1913. The System consists of a seven-member Board of Governors (the Board) and staff in Washington, D.C., plus a nationwide network of twelve Federal Reserve Banks and twenty-five Branches, the Federal Open Market Committee, and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council. The Board employs about 1,750 staff members, and the Reserve Banks and Branches employ about 23,250 staff members.

Members of the Board are appointed by the President and confirmed by the Senate to serve fourteen-year, staggered terms to help insulate

their decisions from day-to-day political pressure. The Chairman and Vice Chairman each serve four-year terms.

The major source of Federal Reserve income is earnings on the portfolio of U.S. government securities used to implement monetary policy. In 1996, the Federal Reserve returned an estimated \$20.1 billion to the U.S. Treasury as earnings in excess of expenses, dividends, and additions to Reserve Bank capital and surplus accounts. These earnings are deemed to be interest on Federal Reserve notes and are treated as receipts to the federal budget. The Board reports to Congress through an annual report on the Board's operations and through semiannual reports on the state of the economy and the course of monetary policy.

## Appendix 2

# Office of Inspector General

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The Board established the Office of Inspector General (OIG) in July 1987, in accordance with the provisions of the Inspector General Act of 1978. Minor changes were made to the originating charter to bring the OIG in line with the Inspector General Act Amendments of 1988. The Inspector General has the authority to address all matters that fall under the Board's jurisdiction.

It is the duty and responsibility of the OIG to

- Provide policy direction for, and conduct, supervise, and coordinate audits, operations reviews, and investigations relating to, the Board's programs and operations.
- Review existing and proposed laws and regulations relating to the Board's programs and operations and make recommendations concerning the effects of these laws and regulations on the economy and efficiency in, and the prevention and detection of fraud and abuse in, the administration of the Board's programs and operations as well as in those administered or financed by the Board.
- Recommend policies for, and conduct, supervise, or coordinate other activities carried out or financed by, the Board for the purpose of promoting economy and

efficiency in the administration of the Board's programs and operations and preventing and detecting fraud and abuse in those programs and operations.

- Recommend policies for, and conduct, supervise, or coordinate relationships between, the Board and other federal agencies, state and local governmental agencies, and non-governmental agencies with respect to all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by the Board or the identification and prosecution of participants in any such fraud or abuse.

- Keep the Chairman and Congress fully informed by means of semiannual and other reports concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by the Board, recommend corrective actions concerning such problems, abuses, and deficiencies, and report on the progress made in implementing corrective actions.

Notwithstanding the authorities and jurisdictions summarized above, the Inspector General Act, as amended, provides

that the Inspector General shall be under the authority, direction, and control of the Chairman with respect to audits or investigations, or the issuance of subpoenas, that require access to sensitive information regarding

- deliberations and decisions on policy matters, including documented information used as a basis for making policy decisions the disclosure of which could reasonably be expected to have significant influence on the economy or market behavior, or
- other matters the disclosure of which would constitute a serious threat to national security or the protection of any person or property under protection programs.

The Chairman can prohibit the Inspector General from carrying out or completing an audit or investigation, or from issuing a subpoena, if the Chairman determines that the prohibition is necessary to prevent the disclosure of certain sensitive information.

The Inspector General Act requires that the Chairman notify the Inspector General in writing of the reasons for the prohibition, and the Inspector General must transmit this notice within thirty days to designated congressional committees.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (Public Law 102-242) amended section 38(k) of the Federal Deposit Insurance Act and made it the responsibility of the Inspector General to review the Federal Reserve's supervision of failed state member banks that cause a material loss to the Bank Insurance Fund.

Because the Federal Reserve has supervisory jurisdiction over bank holding companies, the Board's Inspector General reviews the Federal Reserve's supervision of bank holding companies and affiliate bank holding companies that contribute to any material loss to a depository institution regulated by any federal regulator.

OIG work generally falls into three main categories—audit, investigations, and legislative and regulatory review. To accomplish this work, the OIG currently operates with a staff authorization of thirty-two plus the assistance of contract auditors and experts.

## Appendix 3

# OIG Audit Reports and Recommendations

Report No.	Audits Currently Being Tracked	Issue Date	Recommendations			Status of Recommendations <sup>1</sup>		
			No.	Mgmt. Agrees	Mgmt. Disagrees	Follow-up Completion Date	Closed	Open
Monetary and Economic Policy								
None currently being tracked.								
Supervision and Regulation of Financial Institutions								
A9203-A	Audit of HMDA Processing System: Project Management	02/94	13	8	5	11/96 <sup>2</sup>	11	2
A9508	Audit of the Board's Consumer Compliance Examination Process	04/96	14	11	3	06/97	3	11
A9604	Audit of the Board's Application Processing	08/96	10	10	0			
A9610	Audit of the Division of Banking Supervision and Regulation's Distributed Processing Environment	06/97	5	5	0			

<sup>1</sup> A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight Committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the Board is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred it to the appropriate oversight Committee or administrator for a final decision.

<sup>2</sup> Supplemental follow-up work completed during this reporting period resulted in our closing some recommendations.

Report No.	Audits Currently Being Tracked	Issue Date	Recommendations			Status of Recommendations <sup>1</sup>		
			No.	Mgmt. Agrees	Mgmt. Disagrees	Follow-up Completion Date	Closed	Open

### Oversight of Federal Reserve Bank Activities

A9107	Audit of the Board's Financial Examination Program	09/93	18	16	2	08/97 <sup>2</sup>	18	0
A9405	Audit of the Board Oversight of Federal Reserve Automation Consolidation	02/96	3	3	0	03/97	2	1
A9603	Audit of the Board's Oversight of Reserve Bank Procurement	12/96	3	3	0			

### Federal Reserve Board Administrative Operations

A9408	Audit of the Office of the Secretary's Record Services' Image Processing System	03/95	6	6	0			
A9505	Audit of the Division of Information Resources Management's Change Control Process	02/96	4	2	2			
A9507-A	Audit of the Board's Procurement and Contract Management Process	08/96	16	14	2			
A9507-B	Audit of the Board's Procurement and Contract Management Process: Credit Card Purchases	06/96	5	3	2	06/97	5	0.00
A9606	Audit of the Division of Information Resources Management's Operating System (MVS) and Access Control Software (CA-ACF2)	07/96	2	0	2	07/97	2	
A9609	Audit of the Administrative Systems Automation Project (ASAP)	02/97	7	7	0			
A9702	Business Process Review of Travel Administration	07/97	9	9	0			
A9706	Audit of the Board's Thrift Plan	05/97	0	N/A	N/A			

<sup>1</sup> A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight Committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the Board is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred it to the appropriate oversight Committee or administrator for a final decision.

<sup>2</sup> Supplemental follow-up work completed during this reporting period resulted in our closing these recommendations.

## Appendix 4

### Audit Reports Issued with Questioned Costs for the Period April 1, 1997, through September 30, 1997

Reports	Number	Dollar Value	
		Questioned Costs	Unsupported Costs
For which no management decision had been made by the commencement of the reporting period	0	\$0	\$0
That were issued during the reporting period	0	\$0	\$0
For which a management decision was made during the reporting period	0	\$0	\$0
(i) dollar value of disallowed costs	—	—	—
(ii) dollar value of costs not disallowed	0	\$0	—
For which no management decision had been made by the end of the reporting period	0	\$0	\$0
For which no management decision was made within six months of issuance	0	\$0	\$0

## Appendix 5

### Audit Reports Issued with Recommendations That Funds Be Put to Better Use for the Period April 1, 1997, through September 30, 1997

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Reports	Number	Dollar Value
For which no management decision had been made by the commencement of the reporting period	0	\$0
That were issued during the reporting period	1	\$267,000
For which a management decision was made during the reporting period	0	\$0
(i) dollar value of recommendations that were agreed to by management	—	—
(ii) dollar value of recommendations that were not agreed to by management	—	—
For which no management decision had been made by the end of the reporting period	1	\$267,000
For which no management decision was made within six months of issuance	0	\$0

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## Appendix 6

### Summary Statistics on Investigations for the Period April 1, 1997, through September 30, 1997

Investigative Actions	Number
Hotline	
Complaints received (calls, letters, or other contacts)	249
Complaints closed	246
Referrals for investigation	
Hotline referrals	1
Audit referrals	0
Referrals from other Board offices	1
Referrals from other sources	0
Proactive efforts by OIG	
Investigations developed by OIG	1
Total of hotline complaints, referrals, and proactive efforts received during reporting period	249
Investigative caseload	
Investigations opened during reporting period	3
Investigations open from previous periods	9
Investigations closed during reporting period	3
Total investigations active at end of reporting period	9



## Appendix 7

# Cross-References to the Inspector General Act

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Indexed below are the reporting requirements prescribed by the Inspector General Act of 1978, as amended, for the reporting period:

<u>Section</u>	<u>Source</u>	<u>Page</u>
4(a)(2)	Review of Legislation and Regulations	13
5(a)(1)	Significant Problems, Abuses, and Deficiencies	11
5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	None
5(a)(3)	Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	None
5(a)(4)	Matters Referred to Prosecutory Authorities	None
5(a)(5)	Summary of Instances Where Information Was Refused	None
5(a)(6)	List of Audit Reports	21
5(a)(7)	Summary of Significant Reports	None
5(a)(8)	Statistical Table—Questioned Costs	23
5(a)(9)	Statistical Table—Recommendations That Funds Be Put to Better Use	25
5(a)(10)	Summary of Audit Reports Issued Before the Commencement of the Reporting Period for Which No Management Decision Has Been Made	None
5(a)(11)	Significant Revised Management Decisions Made During the Reporting Period	None
5(a)(12)	Significant Management Decisions with Which the Inspector General Is in Disagreement	None

***You Can Help***



**1-202-452-6400**

**1-800-827-3340**

**Report: Fraud, Waste or Mismanagement**

- **Information Is Confidential**
- **Caller Can Remain Anonymous**

**You can also write the Office of Inspector General,  
HOTLINE, Mail Stop 300, Board of Governors of the Federal  
Reserve System, 20th & Constitution Avenue, N.W.,  
Washington, DC 20551.**